VENCAP

Vencap Equities Alberta Ltd.

FIRST ANNUAL REPORT TO SHAREHOLDERS

1984

A MESSAGE FROM THE PRESIDENT

Dear Shareholder:

This is the First Annual Report of Vencap Equities Alberta Ltd. following the Corporation's successful issue of $44 million of convertible debentures and common shares last fall. Your management will be reporting to you on Vencap's activities every three months and once every year you will receive an annual report summarizing our activities for the financial year just past.

This report covers the period from Vencap's start-up on October 12th last to March 31st, 1984, a period of just less than six months. For this period Vencap earned $10,562,969 of interest and dividend income from its holdings of short- and medium-term securities and from its venture investment, which after operating expenses, debenture interest, Province of Alberta loan interest and income taxes produced a net income of $2,307,322.

It is in the interests of Vencap shareholders that the Corporation's capital, while awaiting deployment in Vencap's venture investment program, is invested to earn income. To this end Vencap participates in the highest quality corporate and government securities and, from time to time, such transactions are significant enough to warrant reporting them to you. Thus, in recent months, Vencap purchased $27 million of Canadian Utilities Limited 8.375% cumulative redeemable preferred shares, and $25 million of TransAlta Utilities Corporation 8.40% first cumulative redeemable preferred shares. Both issues are retractable at the option of Vencap eight years after the date of issue.

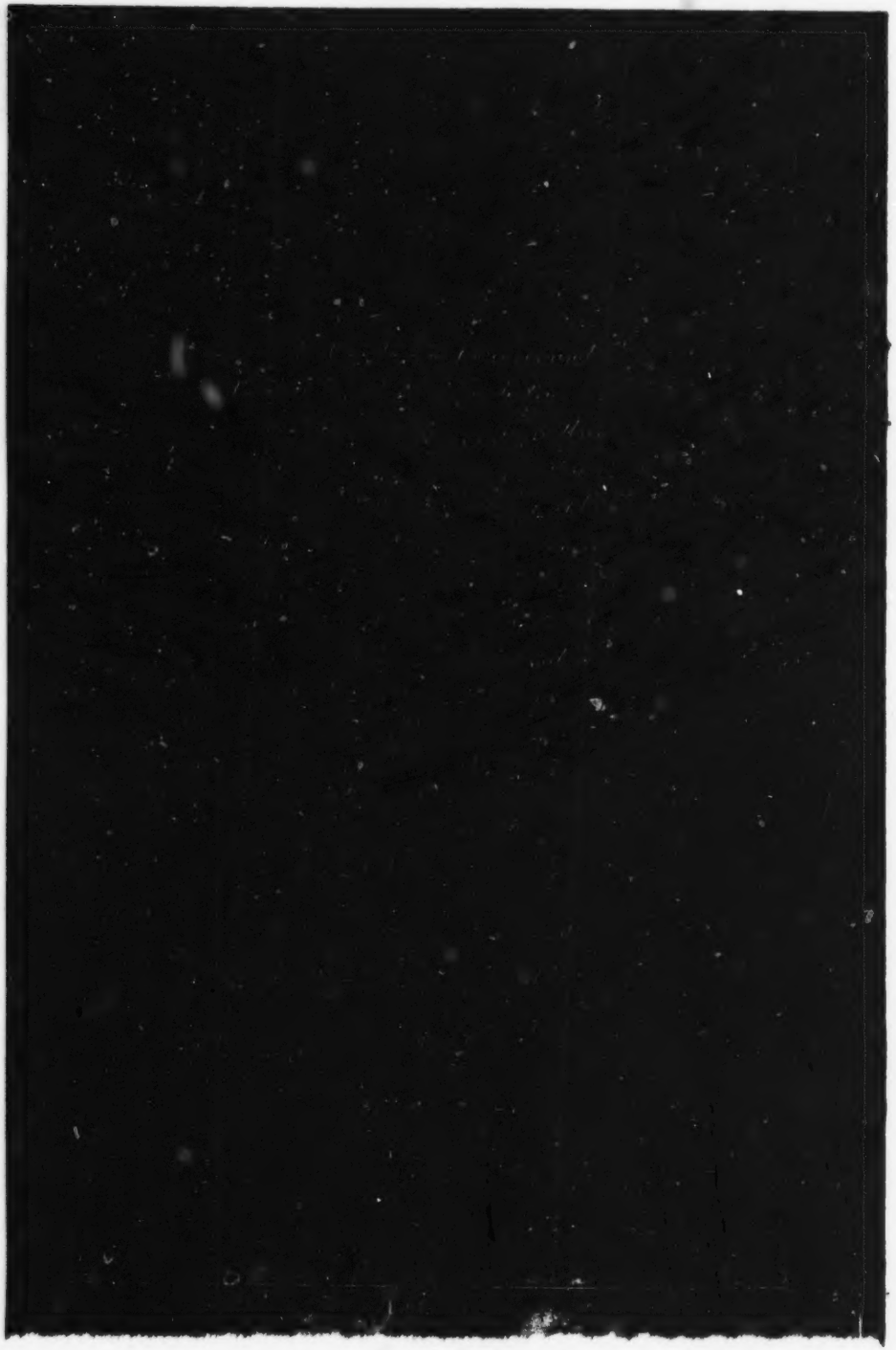
Vencap's primary activity is its venture investment program. Vencap's first such investment was consummated on February 28, 1984, by means of a $3 million venture investment in P.T.I. Holdings (1983) Ltd. I quote from a press release issued by the company on that day:

"P.T.I. Holdings (1983) Ltd. ("P.T.I.") of Peace River, Alberta, announced today the sale of a substantial minority interest in the company to Vencap Equities Alberta Ltd. ("Vencap") in return for a $3 million investment. P.T.I. was formed in 1983 by the amalgamation of two successful enterprises, Hofam Catering Ltd. and Peace Trailer Industries Ltd. It is in the business of industrial catering, camp leasing and manufacturing, and oil field and general heavy transport. Vencap's investment will permit P.T.I. to finance the growth required to meet the increasing demand for the services provided by the company."

Your board and staff are working on many other interesting investment opportunities. You will be seeing announcements in the near future of additional venture investments by Vencap.

At Vencap we believe we are pioneering the field of venture capital focusing on industrial, agricultural, commercial and technically-oriented investment opportunities. In the past, massive amounts of capital have been attracted to Alberta by opportunities in oil and gas development and by opportunities in real estate development. Risk capital to support initiatives in Alberta's industrial sector has not been plentiful. The arrival of Vencap has changed that. It is our task at Vencap to seek out and to support with capital and with assistance in management those worthy endeavours in manufacturing industries, service industries and technological opportunities which show promise of becoming substantial enterprises. If we perform this task to the best of our ability we believe not only that the Vencap shareholder will receive a handsome long-term return on the risk portion of his investment but also that the activities of Vencap will have a favourable impact on the economic strength and diversity of the Province of Alberta.

Derek H. Mather
President
May 22, 1984



MESSAGE FROM THE CHAIRMAN

At this stage in the development of our economy in Alberta it is important to encourage imaginative and progressive people who have the desire to create and build successful enterprises thereby expanding production and employment. Perhaps never before in our history has it been so important that we make good and effective use of our human resources.

Vencap Equities Alberta Ltd. (Vencap) has been created to provide venture capital for new developments and for companies of promise requiring financial support not normally available from conventional sources.

Vencap is neither a bank nor an investment company in the traditional sense; it is a builder of enterprises. In addition to supplying equity capital Vencap makes available to companies in which it invests the technical and administrative experience of its management, board of directors and its many advisors and friends in Alberta and elsewhere.

This is Vencap's First Annual Report to its shareholders. In addition to providing a record of Vencap's financial performance since its start-up in the fall of last year, the report discusses the nature and scope of Vencap's activities and introduces the Corporation's directors and officers. It is the hope of all of us who work at Vencap that shareholders and others will show their interest in Vencap's investment objectives by referring to it promising investment opportunities.

F. Newton Hughes
Chairman
May 22, 1984

PROPOSALS

Vencap welcomes initial enquiries, either by telephone or letter, and will indicate its interest as promptly as possible. If appropriate, Vencap's staff will then conduct a more detailed evaluation of the business opportunity through personal meetings with the principals and by field studies.

While the specific considerations of each situation vary, there are certain elements which Vencap evaluates carefully in all investment decisions:

- *the skills, motivation, dedication and financial commitment of the company's management*
- *the proprietary and innovative characteristics of its products or services*
- *the nature and growth potential of the markets to be served*
- *the business strategy to be pursued in building revenues and profits*
- *the venture's historical operating and financial record*
- *projected operating forecasts and capital requirements.*

Vencap has promised its shareholders that its investment program will be aimed at maximizing gains and minimizing losses. Vencap does not promise, therefore, to support every venture which comes its way. Vencap does undertake, however, to take the time to consider carefully every serious investment proposal presented to it.

AUDITORS' REPORT

April 27, 1984

To the Shareholders of
Vencap Equities Alberta Ltd.:

We have examined the balance sheet of Vencap Equities Alberta Ltd. as at March 31, 1984 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants

THE BEGINNING

Vencap Equities Alberta Ltd. (Vencap) became a publicly-owned company October 12th last. On that day its shares first opened for trading on the Alberta Stock Exchange, at a substantial premium over issue price. At start-up Vencap had more than 42,000 individual shareholders.

PURPOSE

Vencap was created as a venture capital company to be owned primarily by Albertans and to serve the long-term economic interests of Alberta and Albertans.

Vencap's aim is to assist in the creation of new Alberta based companies and to participate in the growth of existing businesses which will broaden the economic base of the Province.

The development and growth of successful business ventures requires creative, dedicated leadership, sound business judgement and sufficient long-term equity capital. Vencap will support competent companies in their areas of endeavour with equity capital and the time, talent and experience of its staff. Vencap's objective is to create long-term capital appreciation through the growth and profitability of the companies in which it invests.

Vencap's central theme will be one of finding able persons and worthwhile projects where a constructive relationship between the two exists or can be created, and giving them life with the aim of building major business enterprises.

Vencap wishes to work with institutions of learning and research — the universities and technical schools, private and government centres of research, and corporate development groups — to help build worthwhile Alberta companies.

INVESTMENT GUIDELINES

Vencap is interested in all areas of legitimate endeavour excluding only conventional oil and gas exploration and development, nuclear power, water diversion projects, real estate development, and conventional banking and lending operations. All investments made by Vencap will involve the present or future acquisition of equity interests.

Vencap will consider investments of any size where there is excellent potential for future growth. Vencap will be particularly attracted to opportunities which, within a reasonable period of time, will employ effectively sums of equity capital in a range of from $1 million to $10 million.

OPERATING PRACTICES

Vencap is publicly owned and, therefore, has as its primary aim to operate profitably and to promote the long-term growth of the company in the best interests of all shareholders. It will achieve this aim by:

- *helping to start new Alberta companies having prospects of substantial growth*
- *supporting existing Alberta companies needing additional risk capital to finance attractive growth plans*
- *assisting competent management to acquire Alberta companies whose present owners wish to sell*
- *investing outside Alberta in ceed, will in some significant way enhance the economic future of Alberta and/or Albertans and which will otherwise assist in furthering Vencap's objectives.*

Where possible and, in most instances involving new and early stage ventures, Vencap wishes to invest and work with other investors in Canada and elsewhere who can make a significant contribution to the success of the enterprise.

Vencap does not seek to control or manage the companies with which it becomes associated. Vencap's preference is to invest on a minority basis and to assist competent entrepreneurs/managers to

VENCAP EQUITIES ALBERTA LTD.

BALANCE SHEET

	March 31 1984	1983
ASSETS		
Current assets:		
Interest and dividends receivable	$ 6,935,784	$ —
Investments in securities, at cost which approximates market value	122,225,323	—
Prepaid expenses	20,173	—
	129,181,280	—
Deferred pre-operating costs	—	219,496
Investments in securities maturing after one year, at cost	118,366,551	—
Venture investment, at a value determined by the directors	3,000,000	—
Employee share purchase loans (Note 4)	255,000	—
Fixed assets, at cost less accumulated depreciation	175,159	5,980
	$ 250,977,990	$ 225,476
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cheques issued in excess of bank balance	$ 13,556	$ 83,464
Demand bank loan	1,000,000	—
Accounts payable and accrued liabilities	206,591	142,011
Accrued interest payable	3,763,323	—
Income taxes payable	646,310	—
	5,629,780	225,475
Long-term debt:		
Convertible debentures (Note 2)	40,000,000	—
Province of Alberta loan (Note 3)	200,000,000	—
	240,000,000	—
Shareholders' equity:		
Share capital (Note 4)	4,255,000	1
Retained earnings	1,093,210	—
	5,348,210	1
	$ 250,977,990	$ 225,476

APPROVED ON BEHALF OF THE BOARD:

D. W. Hughes
Director

James A. Heinbuch

VENCAP EQUITIES ALBERTA LTD.

STATEMENT OF INCOME AND RETAINED EARNINGS YEAR ENDED MARCH 31, 1984

Interest and dividend income		$ 10,562,969
Expenses:		
Interest on Province of Alberta loan	$ 2,592,912	
Interest on debentures	2,248,792	
Pre-operating costs	740,682	
General and administrative expenses	508,114	
Salaries and benefits	244,944	
Trustee and transfer fees	167,455	
		6,502,899
Income before income taxes		4,060,070
Provision for income taxes		1,752,748
Net income		2,307,322
Retained earnings, beginning of year		—
		2,307,322
Costs related to the public issue of Units, net of recovery of income taxes of $1,106,438		1,214,112
Retained earnings, end of year		$ 1,093,210
Earnings per common share (Note 6):		
Basic earnings per common share		$ 0.58
Fully diluted earnings per common share		0.15

VENCAP EQUITIES ALBERTA LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended March 31, 1984	From incorporation on August 17, 1982 to March 31, 1983
Funds were provided by:		
Net income	$ 2,307,322	$ —
Add: Items not involving the outlay of funds —		
Depreciation	43,790	—
Deferred pre-operating costs	219,496	—
From operations	2,570,608	—
Issue of common shares	3,999,999	1
Issue of Class B preferred shares	255,000	—
Issue of convertible debentures	40,000,000	—
Province of Alberta loan	200,000,000	—
	246,825,607	1
Funds were applied to:		
Investments in securities maturing after one year	118,366,551	—
Venture investment	3,000,000	—
Employee share purchase loans	255,000	—
Purchase of fixed assets	212,969	5,980
Deferred pre-operating costs	—	219,496
Costs related to the issue of Units, net of recovery of income taxes	1,214,112	—
	123,048,632	225,476
Increase (decrease) in working capital	123,776,975	(225,475)
Working capital (deficiency), beginning of year	(225,475)	—
Working capital (deficiency), end of year	$ 123,551,500	$ (225,475)

VENCAP EQUITIES ALBERTA LTD.

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 1984

1. Summary of significant accounting policies:
   (a) Valuation of investments —
   Funds which are not currently required for venture investments are invested in short and medium term securities which earn investment income. These investments are recorded at the lower of cost and market value.
   Venture investments not having quoted market values are recorded at values determined by the directors. Venture investments having quoted market values would be recorded at values based on the quoted market prices as at March 31.
   (b) Depreciation
   Fixed assets are depreciated over their estimated useful lives as follows:
   Equipment — declining balance basis at 20% per annum
   Leasehold improvements — straight line basis over the term of the lease
   (c) Deferred charges —
   Pre operating costs, which consisted principally of legal and consulting fees and directors' and officers' remuneration, were deferred until the start of active operations on October 12, 1983 and were then expensed over the period to March 31, 1984.
   Expenses related to the issue of Units of common shares and convertible debentures are charged to retained earnings.
2. Convertible debentures:
   The convertible debentures bear interest at 12% per annum payable semi-annually on the second day of January and July in each year. The debentures are convertible at the option of the holders into common shares at any time to July 2, 1991 at a conversion price of $2.50 per common share, and at any time thereafter to July 2, 1998 at a conversion price of $4.00 per common share.
   As a result of conversion of the convertible debentures, the Company may issue up to 16,000,000 additional common shares.
3. Province of Alberta loan:
   The Provincial Loan is to be repaid in instalments of $1,000 in each of the years 1984 through to 2002, inclusive, in instalments of $15,000,000 in each of the years 2003 and 2012, inclusive, with the balance due in 2013. Interest will amount to a percentage of the Company's net income before deducting income taxes, interest on the Provincial Loan and interest on any debt subordinated to the Provincial Loan but after deducting operating expenses, interest on the convertible debentures and a portion of the costs related to the issue of Units.
   The Provincial Loan is secured by a debenture which provides for a fixed charge on securities owned by the Company having an aggregate book value of $175,000,000. The debenture also provides for a floating charge on all the Company's assets and an assignment of receivables.
   The Company may issue up to 4,000,000 Special Shares at a price of $1.00 per share upon exercise of an option in favour of the Province of Alberta. The Special Shares, if issued, will have 20% of the total number of votes attaching to all shares of the Company.
4. Share capital:

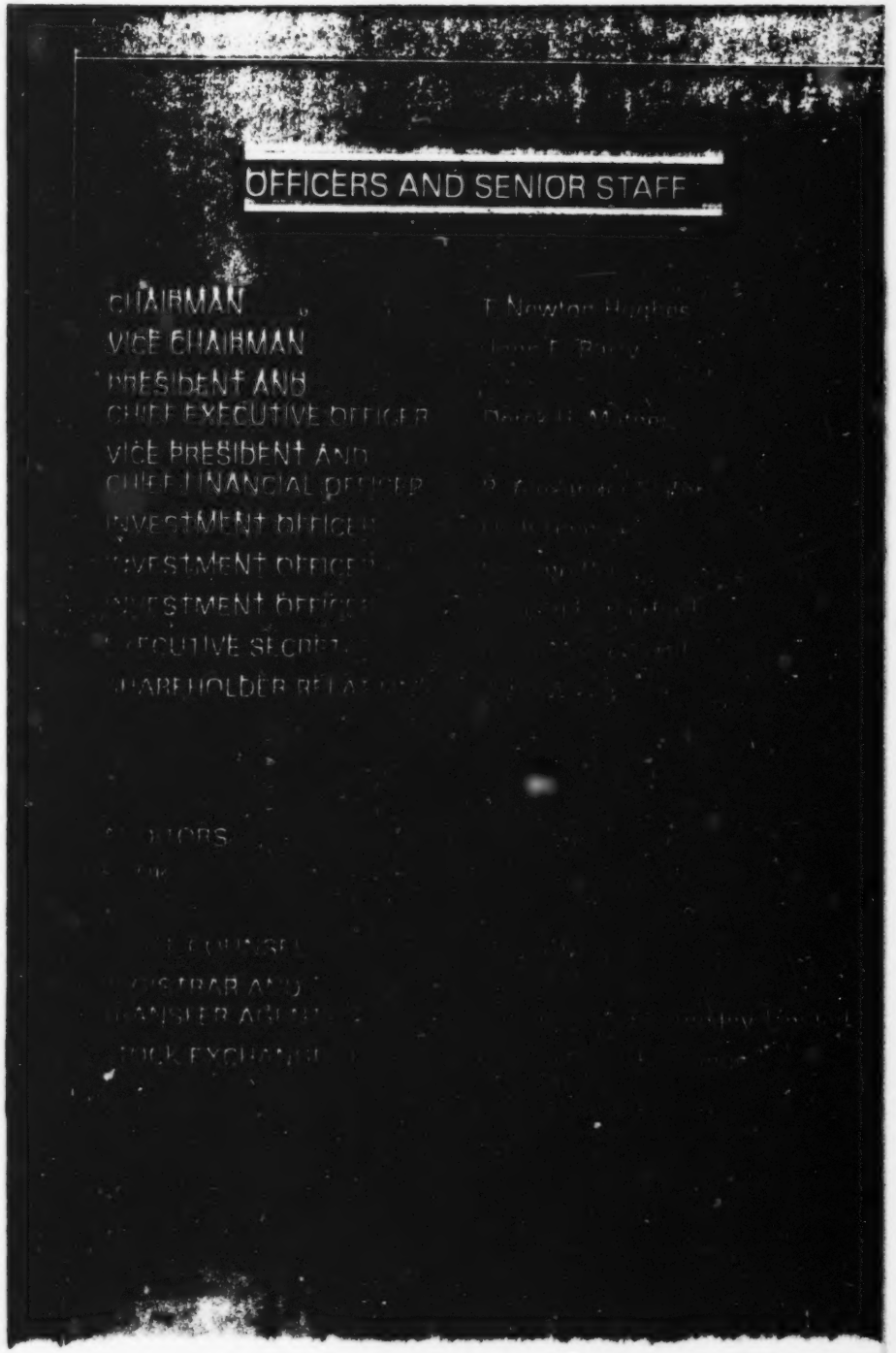
	1984	1983
Authorized —		
Unlimited number of Class A preferred shares		
Unlimited number of Class B preferred shares		
Unlimited number of Special Shares		
Unlimited number of common shares		
Issued —		
25,500 Class B preferred shares	$ 255,000	$ —
4,000,000 common shares (1983 - 1 share)	4,000,000	1
	$4,255,000	$ 1

   During the year the Company changed its authorized preferred share capital from an unlimited number of Preferred Shares to an unlimited number of Class A Preferred Shares and an unlimited number of Class B Preferred Shares.
   The Company issued 4,000,000 common shares for cash during the year, and redeemed one common share.
   The Company has designated 40,000 Class B preferred shares — Series 1 as non-voting Key Employee Shares and issued 25,500 of such shares during the year for $10 per share. Each Key Employee Share can be converted into ten common shares, is entitled to receive dividends equal to 10 times the amount of cash dividends declared on each common share and, in the event of dissolution of the Company, would be entitled to priority in respect of unpaid dividends declared. In connection with the issue of these shares, the Company has provided interest-free loans of $255,000 to the employees, repayable at the earlier of the date such shares are converted into common shares and March 1994.
5. Commitments:
   The Company is committed under a five year operating lease for rental of office space. The annual lease payment will amount to $36,000.
6. Earnings per common share:
   The calculation of basic earnings per common share is based on the weighted average number of shares outstanding during the period from October 12, 1983, the date of commencement of active operations, to March 31, 1984. The calculation of fully diluted earnings per common share is based on the assumption that all outstanding share options, Key Employee Shares and convertible debentures

BOARD OF DIRECTORS

Dr. Charles Allard
James G. Anderson* †
John E. Barry*
Donald A. Carlson* †
F. Newton Hughes*
Derek H. Mather*
Elson J. McDougald
Daryl K. Seaman
Fred Sparrow*
Donald J. Taylor
V. Kenneth Travis
G. Norman Wildgoose* †
Dr. John D. Wood

* member of the Executive Committee
† member of the Audit Committee



POOR

QUALITY

ORIGINAL